

VZCZCXRO7227
RR RUEHCN RUEHGH
DE RUEHIN #2462/01 2020834
ZNY CCCCC ZZH
R 210834Z JUL 06
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 1196
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002462

SIPDIS

SIPDIS

DEPT FOR EAP/TC

E.O. 12958: DECL: 07/20/2016

TAGS: [ECON](#) [EINV](#) [EFIN](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: ECONOMIC CONFERENCE - PROSPECTS DIM FOR CROSS-
STRAIT BREAKTHROUGH

REF: A. TAIPEI 220

[B](#). TAIPEI 1644

[C](#). TAIPEI 2365

Classified By: AIT Acting Deputy Director Charles E. Bennett, Reason 1.
4 d

[1](#). (C) Summary: Taiwan's Sustainable Economic Development Conference has suffered a series of setbacks in the last week, including the announcement that People First Party (PFP) Legislator Christina Liu would not participate and President Chen's reaffirmation of the "active management" policy. Vice Premier Tsai Ing-wen told the Director she had lost hope of accomplishing anything substantial at the conference. Council for Economic Planning and Development (CEPD) Chairman Hu Sheng-cheng, who is organizing the conference, is still optimistic, but the conference recommendations that he described do not represent a major breakthrough on cross-Straits economic policy. End summary.

Week of Setbacks

[1](#). (U) The last week has seen a series of events that cast doubt on the possibility that Taiwan's Sustainable Economic Development Conference will result in any major breakthroughs in cross-Straits policy or other important economic issues. On July 13, Legislative Yuan Member Christina Liu, of the Pan-Blue People First Party (PFP) announced that she would not participate. Former President Lee Teng-hui and the Pan-Green Taiwan Solidarity Union have repeatedly objected to the possibility that the conference might result in further economic opening to the PRC, especially proposals to relax the 40 percent limit on investment in the Mainland. On July 16, President Chen reaffirmed the "active management, effective opening" policy and said that the aim of the conference was not to relax restrictions on cross-Straits economic relations. In addition, the Executive Yuan announced during a July 19 preparatory meeting for the conference that it would no longer pursue the goal of reducing the number of financial holding companies in half and would re-assess plans for a special international board for the Taiwan stock exchange.

Tsai Losing Hope

SIPDIS

[1](#). (C) A downbeat Vice Premier Tsai Ing-wen privately told the Director on July 19 that she had lost hope of

accomplishing anything substantial on economic policy at the conference. When the Director complimented Tsai's work with Premier Su Tseng-chang to quietly liberalize remaining cross-Strait economic restrictions, Tsai agreed that the work was important. She said at this point she and the Premier hoped nothing said or done at the conference would limit or restrict those efforts. She noted that the Deep Greens' desire to derail such efforts could make the conference rather raucous.

Hu Still Cheering

¶4. (C) Chairman Hu Sheng-cheng, whose CEPD is charged with organizing the conference, told econoffs on July 20 that he still hoped the conference would yield positive results. He noted that LY Member Christina Liu and LY Vice President Chung Jong-qi, both of the PFP, continued to contribute to the conference preparations even though they would not actually appear at the event. He described their behind the scenes efforts as a way to support the conference while saving face for the PFP leadership that had asked party members not to participate. Liu even wrote an op-ed piece in support of the conference that appeared in the United Daily News on July 19.

¶5. (C) Hu emphasized that Liu had been a key contributor to recommendations on financial policy. She formulated compromise language on opening the way for Taiwan banks to set up branches in the PRC and permitting PRC banks to open representative offices in Taiwan. In addition, Hu commented that the conference would likely recommend that Renminbi exchange be legalized in Taiwan after industry-led discussions with the PRC instead of waiting for a formal agreement between the two authorities. This recommendation echoes Liu's earlier efforts to amend Taiwan regulations that call for a "currency settlement agreement" to require

TAIPEI 00002462 002 OF 002

only a "currency settlement mechanism."

¶6. (C) Hu also described a likely compromise on the cross-Strait investment restrictions that limit Taiwan firms to investing no more than 40 percent of their capital in Mainland China. Hu said the conference would recommend that the restriction stay in place as a general rule, but investment beyond the 40 percent ceiling would be approved on a case-by-case basis. Pointing out that only a small number of Taiwan businesses had actually reached the 40 percent ceiling, Hu claimed that a case-by-case approach could effectively resolve the objections to the ceiling. (Note: Taiwan's Securities Exchange Commission recently announced that 140 listed companies had reached the ceiling on investment in China. End note.) The case-by-case approach would be consistent with the "active management" policy. Ministry of Economic Affairs Investment Commission officials have hinted since January that the "active management" policy could lead to case-by-case flexibility on the 40 percent rule (ref A).

Comment - Keep Expectations Low

¶7. (C) Recent events and Tsai's pessimistic comments indicate that there re likely to be no major breakthroughs on cross-Strait policy at the conference. Hu must play the role of conference cheerleader. His optimism seems sincere, but the conference recommendations he described won't be a radical departure from the "active management" policy. The results will almost certainly be criticized by the Deep Greens as going too far and the Deep Blues as accomplishing too little. As Hu observed, this may be the surest sign that the conference struck an acceptable balance that approximates a consensus. Nevertheless, even these modest recommendations will represent movement in the right direction. The burden will then be on Su and Tsai to

implement the meager proposals in Taiwan's charged
political environment. End comment.
YOUNG